

Service Date: June 29, 2001

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER of the Commission's	)	
Investigation into the feasibility of a	)	UTILITY DIVISION
Demand Exchange Program to address	)	
Market Challenges faced by Industrial	)	DOCKET NO. D2001.3.30
Customers of Montana Power Company.	)	ORDER NO. 6355

**ORDER IMPLEMENTING ELECTRICAL ENERGY POOL**

**Background**

1. House Bill 645, passed by the 2001 Montana Legislature, and enacted on May 5, 2001, requires the Commission to adopt guidelines, criteria, methods, rates, rules and tariffs that it considers necessary to implement an electrical energy pool before July 1, 2001. However, the Commission must also implement the energy pool expeditiously to provide relief as soon as possible to customers paying market prices. The purpose of the electrical energy pool is to make electrical energy available for resale through the conservation efforts of customers contracting to become members of the electrical energy pool. Electricity generators and suppliers can offer to sell or assign electrical energy to the pool for distribution to Montana customers who are paying market rates.

2. On June 15, 2001, the Commission issued a Notice of Opportunity to Comment on Electrical Energy Pool. The Commission requested written comments on certain implementation issues, including customer participation, valuing kilowatt-hour savings, rate schedules, allocating pool benefits, bill credits for participating customers, and MPC's transmission and distribution revenues. Written comments were submitted on June 22, 2001, by Montana Power Company (MPC), Montana Consumer Counsel (MCC), PPL Montana, Large Customer Group (LCG), and Montana League of Cities and Towns/Montana School Boards Association (League).

3. The guidelines adopted by the Commission are subject to specific statutory requirements contained in HB 645 (2001) to be codified at Title 69, Chapter 8, MCA. The

administrator of the electrical energy pool must be a public utility that has filed a transition plan with the Commission. HB 645 does not apply to rural electric cooperatives or municipal utilities. Therefore, the only possible administrator of the electrical energy pool is MPC. MPC must administer the electrical energy pool according to the rules, guidelines, criteria, methods and tariffs adopted by the Commission pursuant to the requirements in HB 645.

4. HB 645 makes participation in the electrical energy pool available to customers in all classes of MPC's retail customer base. The electrical energy in the pool must include electrical energy made available by reduced consumption by MPC's customers. Reduced consumption by customers receiving electrical energy at or below regulated rates can be assigned to the electrical energy pool. Customers receiving electrical energy below regulated rates are, by definition, customers who have a supplier other than MPC, otherwise they would receive service *at* regulated rates. Therefore, customers that left MPC supply service and are paying prices lower than the otherwise applicable regulated rates, may contribute conserved electricity to the electrical energy pool.

5. According to HB 645, a member of the electrical energy pool that reduces electrical energy usage from a base period consumption amount must receive a credit on the customer's electrical energy bill for the month equal to the amount of the reduction in electrical energy usage multiplied by a rate established by the Commission. The base period consumption is equal to the customer's weather-normalized electrical energy consumption during the same month in the base year. The PSC must establish the base period and the rate used to derive the bill credit.

6. Conservation by participating customers includes demand reductions on the utility system achieved by improving efficiency or reducing energy use. A customer's installation of physical measures to improve efficiency and changes in operations/lifestyle which lead to demonstrated reductions in electrical energy usage both fall within the definition of conservation efforts and entitle a member of the electrical energy pool to a bill credit.

#### **Commission Decision**

7. Based on the statutory requirements established by HB 645, and considering written comments, the Commission directs MPC to administer an electrical energy pool according to the electrical energy pool implementation guidelines and procedures set forth in this Order. These guidelines and procedures were necessarily developed in a relatively short period

of time. The guidelines and procedures adopted herein are a work in progress. The Commission intends to continue to work with interested persons to refine and improve the guidelines and procedures.

### **Customer Participation in Electrical Energy Pool**

8. MPC must administer an electrical energy pool through June 30, 2002. Customers in all rate classes must be eligible to participate, including customers receiving their electricity supply from a supplier other than MPC if the supply price is less than the otherwise applicable tariff rate. However, if a customer receiving electricity supply from a supplier other than MPC becomes a member (a member is a customer who makes electrical energy available to the pool through conservation efforts pursuant to the guidelines in this order) of the electrical energy pool the process of marketing net kWh reductions achieved by the customer and making a payment to MPC for allocation to the energy pool (described below) must be performed either by the customer or the customer's supplier. MPC must perform the same calculations on meter data, verification and monitoring of savings that it would otherwise perform for a similar customer supplied by MPC.

9. Customers in the Residential and GS-1 customer classes that have loads that average, on an annual basis, less than 300 KW can become members of the electrical energy pool if they have 12 consecutive months of usage history at their current account location and request to become a member of the pool. To be eligible for an incentive payment in the form of electricity bill credits a customer in either of these service classes must achieve weather normalized kWh reductions in a month of at least 10 percent compared to weather normalized consumption in the same month in the previous year. To continue participating in the electrical energy pool a customer must remain in the same location for as long as the electrical energy pool is in effect. A customer cannot transfer or convey participation to another customer.

10. Customers in the GS -2, Irrigation and Street Lighting customer classes, and customers in the GS - 1 class with loads that average, on an annual basis, 300 KW or more can become members of the electrical energy pool if they have 12 consecutive months of usage history at their current account location(s) and enter a project specific contract with MPC that specifies the customer's conservation activities, savings monitoring and verification criteria, and incentive payment arrangements. Contracts with these customers must normalize for other

variables in addition to weather, e.g., production/operation changes that occurred before the customer contracted to become a member of the electrical energy pool. If the project specific contract is not designed to produce 60 average KW, the customer must achieve a 10 percent net normalized reduction in kWh in a month to receive an incentive payment.

11. An individual customer with multiple meters or multiple service accounts in one or more locations must achieve a net kWh reduction based on normalized meter data in order to receive an incentive payment. Reductions in demand by any customer that result from the customer shifting demand from MPC supply service to a non-utility supply source must be excluded from MPC's calculations of net kWh reductions. Reductions in demand by a customer that result from shifting load to a non-utility supply source are not eligible for bill credits through the electrical energy pool.

12. MPC must promote the electrical energy pool to all customers as a way to 1) assist industrial customers paying market prices, 2) preserve jobs for Montanans, 3) become more energy efficient and 4) save on utility bills. MPC must inform customers that even if they do not become contracted members of the electrical energy pool they can still contribute benefits to the pool, assist industrial customers and help maintain jobs by finding ways to reduce their electricity consumption.

#### **Valuing customer kilowatt-hour reductions – assignment to pool**

13. MPC must establish a proxy retail system load that consists of the weather normalized electrical usage of all Residential and GS-1 customers with 12 consecutive months of meter data and loads that average, on an annual basis, less than 300 KW. The proxy retail system load must be used as the baseline against which MPC measures net kWh reductions for these customers. During the time when the electrical energy pool is in effect new loads can not be added to the proxy system, but if a customer whose load is included in the proxy system load moves to a new location, or ceases operation, the customer's load data must be removed from the proxy system load. Where demand data are available, MPC must assign proxy system load into on-peak and off-peak periods consistent with Mid Columbia price indices.

14. The basis for measuring net kWh reductions from GS –2, Irrigation, and Street Lighting customers and GS – 1 customers with loads that average, on an annual basis, 300 KW

or more must be the measurement and verification terms incorporated into the project specific contracts between these customers and MPC.

15. To calculate the conserved/curtailed kWh that are assigned to the electrical energy pool MPC must, on a monthly basis beginning July 1, 2001, compare the actual, weather normalized proxy system usage to the weather normalized proxy system usage for the same month in the prior year. Where demand data are available MPC must assign net kWh reductions, on a daily basis, to on-peak and off-peak periods.

16. On a monthly basis MPC must value net kWh reductions using the published index of wholesale non-firm prices at the Mid-Columbia. MPC must use the daily on-peak and off-peak prices to value the kWh reductions assigned to on-peak and off-peak periods. Where demand data do not exist, MPC must use the monthly average price. MPC must value verified kWh reductions from project specific contracts in the same way. PPL Montana has voluntarily agreed to make an incentive payment to MPC for net kWh reductions equal to the calculated market value of the net kWh reductions less 2.78 cents per kWh. If there are no net kWh reductions, PPL Montana will not make an incentive payment. Further, PPL Montana will not make incentive payments during hours when it must purchase electricity in the market to meet its obligations under the Wholesale Transition Service Agreements with MPC. MPC must allocate the incentive payment from PPL Montana, less costs associated with bill credits due conserving/curtailing customers and administrative costs, directly to the electrical energy pool to be dispersed to industrial customers as credits toward transmission and distribution charges according to a Commission-approved allocation. Beginning on the service date of this Order the allocations must be as follows:

Ash Grove Cement Company	9%
Smurfit Stone Container Corporation	76%
Stimson Lumber Company	14%
Thomas Operating Company	1%

### **Electrical Energy Pool Rate Schedules**

17. MPC must file with the Commission a rate schedule similar to the Market Supply Service rate schedule but with the source of supply defined as the electrical energy pool. Transmission and distribution services must be billed and contracted for as they are under the

market supply tariffs. The tariff must specify that electrical energy purchased pursuant to the tariff 1) must be used in the state of Montana, 2) may not be resold by the customer for a profit, and 3) may not be used by a customer with onsite generation to facilitate off-system sales of power produced by onsite generation.

18. Customers purchasing from the pool must be billed monthly. MPC must use the revenues generated to pay generators that offer electrical energy to the pool and recover administrative costs. All additional revenues must be returned to the pool.

19. By separate Notice of Commission Action dated June 28, 2001, the Commission allocated power in discrete amounts at a set price for the period July 1, 2001 through September 30, 2001. The approved rate will not change during this allocation period. If a customer receiving an allocation shuts down or cannot make use of the allocation the unused allocation will be reallocated to the other customers. If at any time while the electrical energy pool is in effect significant additional quantities of power become available to the electrical energy pool the Commission will separately allocate that quantity of power. This should ensure that customers receiving power from the electrical energy pool have certainty regarding quantity and price, which will enable the customers to assess whether the allocation makes continued operation financially feasible.

#### **Rates for computing customer bill credits**

20. The incentive payment from PPL Montana for net kWh reductions on MPC's system will provide the funds to allow bill credits for members of the electrical energy pool that achieve kWh reductions. However, because of variability market prices and system loads it is impossible to know the amount of the incentive payment that will be provided by PPL Montana and, therefore, the level of bill credits that can be supported. While the Commission is committed to reward customers that reduce their consumption as members of the electrical energy pool, issues related to determining the amount of the credit and the timing of a customer's receipt of the credit require additional work by the Commission and affected parties.

#### **MPC's administrative costs**

21. Beginning July 1, 2001, MPC must begin accounting for administrative costs associated with implementing the electrical energy pool, including promotional costs. MPC must submit to the Commission a request for an accounting order for this purpose.

Administrative costs associated with the electrical energy pool must ultimately be recovered by revenues generated within the electrical energy pool, such as the tariffed rate(s) industrial customers pay for purchases from the pool or the incentive payment from PPL Montana or other electricity generators or suppliers, or from the industrial customers for whom the pool was established.

### **Conclusions of Law**

1. The Commission may require default suppliers, distribution service providers and public utilities to participate in an electrical energy pool. HB No. 645, Chapter 582, Section 1 (1)(a), 2001 session.
2. The Montana Power Company must administer the electrical energy pool. HB No. 645, Chapter 582, Section 1 (9), 2001 session.
3. The Commission's authority to implement the electrical energy pool, and to issue this order, is contained at HB No. 645, Chapter 582, Section 1 (9), 2001 session.

### **Order**

1. The directions to MPC discussed above are adopted by reference in this Order section. MPC must comply with the directions described above.

DONE AND DATED this 28th day of June, 2001, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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GARY FELAND, Chairman

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JAY STOVALL, Vice Chairman

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BOB ANDERSON, Commissioner

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MATT BRAINARD, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Ann Purcell  
Acting Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision.  
A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.